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SUBJECT: KWAZULU NATAL - MINING AND PROCESSING FIRMS FACE GLOBAL DOWNTURN

REF: CAPE TOWN 52

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¶1. (U) Minerals and Energy Officer and Specialist visited mining and associated manufacturing sites in KwaZulu Natal (KZN) during the week of January 12-16. This cable is a collaboration between Embassy Pretoria and Consulate Durban.

¶2. (SBU) SUMMARY: KwaZulu Natal (KZN) mining and manufacturing industries face a challenging global market, while they address skills, HIV/AIDS, and power issues. KZN is not generally recognized as a mineral-rich province, but it has a number of valuable deposits, some of which have not been thoroughly explored or properly exploited. These include deposits of anthracite coal and heavy mineral beach sands containing titanium minerals. KZN's long coastline, good harbors, and relative proximity to the country's mineral-rich heartland have made it a main conduit for the import and export of mineral products. Its road, rail, pipeline, and port infrastructure is equal to the best in the country. Associated beneficiation and manufacturing have developed widely in KZN. The Embassy Minerals/Energy team found that the common trip themes were the decline in demand for commodity-based products and the drastic drop in commodity prices; the general shortage of skills in the country and the steps being taken to remedy the problem; responses to HIV-AIDS in the workplace; the impact of the power shortage; progress toward meeting government employment equity and the individual solutions applied; and health and safety and environmental requirements. Responses to these issues varied widely, with the more rural-based companies less sensitive to or involved in issues of HIV/AIDS and carbon dioxide emissions. All producers were cautiously optimistic about the future and no layoffs were being planned. Septels will provide additional reporting on Transnet Pipelines and other visits. End SUMMARY.

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Hulamin Aluminium
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¶3. (SBU) Hulamin Aluminium in Pietermaritzburg is the largest fabricator of aluminum products in Southern Africa with an output of 250,000-300,000 tons of finished products per year. This represents 21 percent of the region's annual primary aluminum capacity of some 1.4 million tons (including Mozambique's Mozal smelter's 550,000 tons). By world standards, Hulamin is a minor producer and accounts for less than 1 percent of global output of some 30 million tons per year. Nevertheless, Hulamin produces a variety of niche products, and according to their Marketing Manager Lloyd Darby, the company exports some 70 percent of its output, of which 30-40 percent (21-28 percent of total production) goes to the United States. He said Hulamin is the biggest supplier of rolled aluminum products into the United States and because of the company's good reputation for quality and delivery, particular products enjoy as much as 20-25 percent of the U.S. market.

¶4. (SBU) China is South Africa's major market for aluminum. China is also potentially South Africa's major competitor, but to date China cannot effectively compete on quality. Darby expressed interest in the company becoming DEFARS-compliant (Defense Federal Acquisition Regulations) in order to tender for or have its products acceptable to the U.S. Military and aerospace industry. The major challenges facing Hulamin include the more than 50 percent drop in the price of primary aluminum and the similar decline in demand from overseas auto and engineering sectors, although the domestic market for packaging was holding up. Darby said Hulamin had not been affected by Eskom's load shedding as only 25 percent of their power requirements were from electricity, the rest being process heat provided by LPG. He said that Hulamin estimated a 30 percent HIV prevalence in the facility, comparable to the region, but we waiting for the latest results. The company achieved about 90



percent participation in voluntary testing and dispensed ARVs to HIV positive employees.

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Richards Bay Minerals
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¶5. (SBU) Richards Bay Minerals (RBM) mines some 33 million tons of heavy mineral beach sands (black sands) per year for its titanium minerals and is one of the biggest bulk-handling mining operations in the world. Product output consists of 1 million tons of titanium slag (85 percent titanium dioxide or $TiO_2$), 250,000 tons of zircon, 100,000 tons of rutile (95 percent $TiO_2$), and 550,000 tons of high purity pig iron. RBM exports 95 percent of its output, which yields a world market share of about 25 percent for titanium feedstocks (slag and rutile), 33 percent for zircon, and 25 percent for high purity pig iron. Titanium is a strategic element for aerospace and is essential to modern-day living. $TiO_2$ is non-toxic and environmentally friendly and has replaced lead compounds previously used in pigments. Its largest (95 percent) application is as a white pigment used to give brilliance and color to paints, paper and plastics. $TiO_2$ is also used in candies, toothpaste, sunscreens, and cosmetics.

¶6. (SBU) RBM is a joint-venture (JV) between Rio Tinto and BHP-Billiton. The JV has a mining concession on the east coast of South Africa that stretches for 17 kilometers north of the town of Richards Bay and has additional rights to resources north and south of this area. Mining is carried out using four floating dredges and associated concentration plants, which feed four furnaces requiring some 400 megawatts of power. Power cuts and rationing have been an "inconvenience", only because BHP-B has stabilized supply by shutting some production from its nearby aluminum plant and diverting power to RBM. The dredged sand is fed to the plant to produce a black-sand concentrate and waste sand, which is pumped in turn to mined-out areas to rehabilitate the dunes. Final saleable products are titanium

slag, high purity pig iron, rutile, and zircon. All products are shipped through the bulk-handling port at Richards Bay. Management was confident that specialized, high-quality products and long-term contracts would cushion RBM's exposure to the global downturn. Management estimated HIV prevalence at 14-17 percent, less than the regional average, reflecting a mature, stable work force. The company targets 80 percent participation in voluntary testing and offers a robust health care program, including treating family members.

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Richards Bay Coal Terminal
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¶7. (SBU) Richards Bay Coal Terminal (RBCT) is the biggest single coal export terminal in the world with a rated annual throughput capacity of 82 million tons. Capacity will increase to 91 million tons when the Phase 5 expansion is completed in the third quarter of 2009. Capacity beyond 72 million tons per year has been opened to new producers, many of which are Black Economic Empowerment (BEE) companies, via preferential ownership and export allocations. The terminal makes a significant economic contribution to KwaZulu/Natal Province and South Africa, both as an employer and as an earner of foreign exchange. In September 2006, the terminal loaded a record 409,000 tons of coal in a 24-hour period at an annualized rate of 149 million tons per year. However, actual export tonnages have averaged about 65 million tons annually. South African coal producers own and operate RBCT in cooperation with state-owned Transnet Freight Rail and Transnet National Port Authority. The state bodies are responsible for transporting coal from inland coalfields and for maintaining shipping integrity and safety, respectively.



¶8. (SBU) RBCT employs some 500 people, of which 10-15 percent are estimated infected with HIV-AIDS, compared to a 30 percent average for the province. Management states that 86 percent have been voluntarily tested and know their HIV-AIDS status. The labor force is stable, with a low turnover, and with an older demographic, which is probably the reason for the relatively low number of infections. The last full strike was in about 1998. Skills are in short supply, particularly from the previously disadvantaged communities and the company says it is unable to attain its employment equity targets (quotas for black and women employment at all levels set by government). Emigration to Australia, New Zealand, and Canada has taken its toll on the availability of skilled workers. The terminal's priorities include the retention of skilled people, the integrity of aging equipment, and the company's relationship with service providers. RBCT does not have a good relationship with Transnet Rail, but is attempting to improve this. The problem appears to be one of lack of trust, communication, and cooperation between the mining companies and Transnet, contributing to an inability to export to RBCT's capacity.

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Transnet National Ports Authority
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¶9. (SBU) Richards Bay harbor is owned and operated by state-owned Transnet National Ports Authority (NPA) and owes its existence to the establishment of the RBCT (Reftel). It is one of the biggest bulk seaboard handling ports in the world and encompasses an area bigger than the combined areas of South Africa's other five major harbors. The NPA owns and administers the land on which RBCT is located and provides services such as the tracking of shipping in and outside the harbor, dredging shipping channels and quay-sides, and providing harbor pilots to guide ships in and out of the harbor. RBCT is the NPA's major client, but it also leases land to other clients.

¶10. (SBU) Apart from coal, the harbor exports substantial quantities of primary aluminum, titanium, zircon and pig iron, ferroalloys, chrome and manganese ores, steel, wood chips,

granite blocks, and other dry bulk products. The harbor also handles bulk liquid fuels, chemicals and fertilizers, pitch, and bunker fuels. The NPA at Richards Bay employs some 200 people and has a shortage of experienced shipping pilots. Project expansions are being held up by the lack of artisans, engineers and project engineers. Port management claims to be one of the first to transport pilots to the incoming ships by helicopter rather than by tugboat.

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Assmang Ferro-Manganese
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¶11. (SBU) The Assmang plant at Cato Ridge has a rated annual capacity of 254,000 tons of ferro-manganese. At full production, it needs about 100 megawatts of power and the early 2008 power cuts had an impact on operations. The plant has been able to reschedule peak power demand and to rationalize power rationing within the group. Under present low demand, power supply is no longer an issue. The severe downturn in the steel industry has forced Assmang to close three of its six furnaces cutting output by 40-50 percent at the plant and reducing production at its two mines in the Northern Cape Province. The U.S. is an important customer through U.S. Steel and orders for 2009 are expected to drop by more than 20 percent. Assmang is jointly owned by BEE company African Rainbow Minerals (ARM) and Assore. Assmang mines manganese and iron ore in the Northern Cape Province, which contains some 80 percent of the world's known reserves of manganese, and operates a chrome mine and a ferro-chrome plant in Mpumalanga Province.

¶12. (SBU) The company is facing several other challenges. It is



still recovering from a February 2008 explosion that destroyed the number 6 furnace andkilling six people. Assmang is being accused of liability for a number of workers reportedly suffering from manganism or manganese poisoning. Manganism is a toxic condition resulting from chronic exposure to manganese. The company has set up a trust fund to provide for the families of the men killed in the explosion and is refuting manganism liability pending expert medical examination of the claimants, which to date their lawyers have refused to allow. Cato ridge is located in a rural area and lags in addressing HIV and other social issues. Plant management said that only 50 percent of the workforce turned up at the last voluntary testing program. Since then, the company has embarked on a promotional campaign and hopes that 2009 will see a 75 percent turnout. The company has a number of social investment initiatives in education, the environment, and health. A common problem is the lack of skills in the area and the financial ability to retain experienced people. Some in-house training is provided, but generally health and educational services are only available in the major centers.

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Island View Coal Terminal
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¶13. (SBU) The privately run Island View coal terminal can be considered a "coal boutique", according to General Manager Bruce Deghaye, in that it handles its valuable anthracite coal with "kid gloves." The terminal handles nearly 1 million tons of anthracite each year, which is shipped to overseas markets. Deghaye maintains that his most critical clients are housewives in Turkey and Ireland who demand a certain size of lump coal with minimum dust and mineral matter. Anthracite is a high-rank coal (high carbon content and low volatiles), but is friable and easily degrades when handled. The terminal therefore employs a "soft loading" technique to minimize coal degradation during stockpiling and reclaiming. Anthracite sells at three to four times the price of steam coal and, according to Deghaye, demand is inelastic and has not been affected by the current economic crisis.

¶14. (SBU) The terminal is owned and operated by Bulk

Connections, which is a subsidiary company of the Bidvest Group, a huge South African conglomerate. Harbor access is tightly controlled by the Port of Durban security establishment and requires pre-authorization for entry. Anthracite is Bulk Connections' major product, but it also handles exports of some 200,000 tons per year of steam coal (a costly alternative to the use of Richards Bay), manganese ore from the Northern Cape, copper concentrates trucked or railed down from Zambia and the DRC, and coking coal from China. The terminal has been in operation for over 100 years and much of its equipment is old or second-hand and has been modified to suit the operational-specific requirements of the company.

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Transnet Pipelines
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¶15. (SBU) South Africa's demand for liquid fuels has grown by 4-5 percent per year for the past 3-4 years, up from 3 percent per year during the 2000-2003 period. The inland market currently consumes about 13 billion liters of fuel per year, of which about 60 percent is provided by Sasol's two inland refineries. The rest is sourced from two coastal refineries and imported refined fuels, which are transported via pipeline, road, and rail. State-owned Transnet Pipelines is in the process of constructing a new 545-kilometer, 24-inch, multi-product pipeline from the terminal at Durban to a new terminal outside Johannesburg at a cost of $1.5 billion for Phase 1. This will provide for medium and long-term supply security to the industrial heartland of the country.



¶16. (SBU) CEO Charl Moller said there was confusion as to who would build and operate the pipeline needed to service state-owned PetroSA's proposed new 400,000 liter per day state-of-the-art refinery planned for Coega in the Eastern Cape. He also expressed concern about the four existing internationally-owned refineries, which were old and needed a $10-12 billion investment to upgrade them to meet new EU fuel standards and compete with Coega.

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ArcelorMittal Steel
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¶17. (SBU) ArcelorMittal is the global giant in steel-making and produces 6.4 million tons of liquid steel annually at its four South African steelworks. Its South African operation is the largest steel producer on the African continent (50 percent of total supply) and is amongst the world's lowest cash-cost producers. The Embassy team visited the Newcastle works, which produces long and flat steel products extensively for use in the construction industry. General Manager Jaco Stapleberg assembled an impressive management team to explain the workings at Newcastle and to answer questions. The team was also given an extensive tour of the steel casting plant and the opportunity to see a coke oven discharged. The impact of the global economic crisis is evident as output estimates for 2009 are down by 20 percent due to some 50 percent fall in steel demand. Plans on the table to nearly double Newcastle's output from the current 1.7 million tons to more than 3 million tons of steel per year by 2012 are likely to be delayed pending an upturn in the market.

¶18. (SBU) The Newcastle works employ some 2,000 people. The last HIV-AIDS voluntary campaign was carried out in 2000 and indicated that 18 percent of the workforce were infected. Results for the 2008 campaign should be out early this year. The company provides only vitamins to infected employees, while local clinics are expected to supply the anti-retrovirals. Arcelor is not yet compliant with the requirements of the Black Economic Empowerment charter, but management said they intend to achieve this status. Company management has spent $80 million on environmental issues and claims it is helping to train the Green Scorpions, South Africa's environmental enforcement

agency. The company says it is moving towards implementing EU emission standards, but has not begun to consider its carbon dioxide footprint. Arcelor hires much of its needed skills from overseas, is attempting to entice expatriates to return home (to date they have had 200-300 expressions of interest according to management), and provides study opportunities to school graduates. Artisans are available at a price. The company has brought in more than 100 Zimbabweans to fill technical vacancies and is impressed with the caliber of these artisans.

¶19. (SBU) Comment: KZN mining and minerals processing firms are generally cutting back production by 20-50 percent as they face the substantial global downturn, with market uncertainty and exports drying up. Many interlocutors were cautiously optimistic about Asia, but gloomy about the U.S.' ability to turn around its economy. They are holding off on laying off permanent workers - recognizing the perils of laying off hard-to-find skilled workers, but they can only hold out for so long.
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